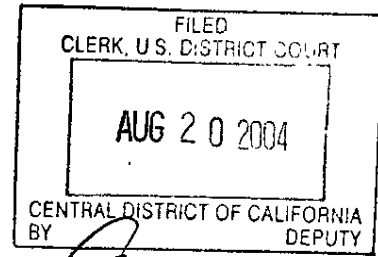


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UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

ELECTRO SOURCE, LLC, a
California limited liability company,

Plaintiff,

v.

PELICAN PRODUCTS, INC., a
California corporation, BRANDESS-
KALT-AETNA GROUP, INC., an
Illinois corporation,

Defendants.

PELICAN PRODUCTS, INC., a
California corporation,

Counterclaimant,

v.

ELECTRO SOURCE, LLC, a
California limited liability company,

Counterclaim Defendant.

CASE NO. CV 02-7974 NM (CTx)

ORDER DENYING DEFENDANTS'
MOTION TO DESIGNATE CASE
EXCEPTIONAL, ENTITLING
DEFENDANTS TO AWARD OF
ATTORNEYS' FEES AND COSTS

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I. INTRODUCTION

On February 15, 2001, Plaintiff Electro Source, LLC ("Plaintiff") filed suit against Defendant Pelican Products, Inc., alleging that Pelican's use of the "Pelican" word and design marks infringed upon Electro Source's registered marks. See Electro Source, LLC v. Pelican Products, Inc., CV No. 01-1555, Filed 2/15/01 ("Pelican I"). On October 15, 2002, Plaintiff filed the instant lawsuit ("Pelican II"), alleging infringement of its Pelican logo mark, Trademark Registration No. 2,073,287 ("Mallett Registration"), which Plaintiff acquired by assignment on or about August 5, 2002 from registrant Ron Mallett ("Mallett").

On February 10, 2004, Defendants Pelican Products, Inc. and Brandess-Kalt-Aetna Group, Inc. ("Defendants") filed a motion for summary judgment in Pelican II, alleging that the Mallett Registration was invalid and unenforceable because (1) the trademark application was fraudulently procured and renewed by knowingly false declarations, (2) the mark was subsequently abandoned, and (3) the assignment to Plaintiff was an assignment in gross.

By order dated April 7, 2004, the court granted Defendants' motion for summary judgment on the basis that Mallett had abandoned the trademark and accordingly, the assignment was an assignment in gross. On June 3, 2004, a stipulation and order for voluntary dismissal of counterclaims and entry of judgment was filed. Now before the court is Defendants motion for attorney's fees against Plaintiff and its counsel pursuant to 15 U.S.C. § 1117, 28 U.S.C. § 1927, Fed. R. Civ. P. 11, and/or the court's inherent powers.

II. DISCUSSION

Under Section 35 of the Lanham Act, the court may award reasonable attorneys' fees to the prevailing party in exceptional cases. 15 U.S.C. § 1117(a). Although "exceptional" is not defined in the Lanham Act, the Ninth Circuit has held that a trademark case is exceptional when it involves "malicious, fraudulent,

deliberate, or willful” conduct or the suit is “groundless, unreasonable, vexatious, or pursued in bad faith.” Steven W. Boney, Inc. v. Boney Servs., Inc., 127 F.3d 821, 825-26 (9th Cir. 1997) (quoting Lindy Pen Co. v. Bic Pen Corp., 982 F.2d 1400, 1408 (9th Cir. 1993)); Cairns v. Franklin Mint Co., 292 F.3d 1139, 1156 (9th Cir. 2002). Courts have awarded attorneys’ fees to a prevailing defendant where, for instance, the plaintiff had no legal basis for bringing suit or sued on an invalid registration for a generic term. See 5 J. Thomas McCarthy, McCarthy on Trademarks and Unfair Competition § 30:101 (4th ed.); see also, e.g., Cairns v. Franklin Mint Co., 115 F. Supp. 2d 1185, 1188-89 (C.D. Cal. 2000), affirmed 292 F.3d 1139 (9th Cir. 2002).

The success of the suit is not the test — the claims must be “groundless, unreasonable, vexatious or pursued in bad faith” to be exceptional. See Blockbuster Videos, Inc. v. City of Tempe, 141 F.3d 1295, 1300 (9th Cir. 1998); Cairns, 292 F.3d at 1188. The Ninth Circuit has affirmed the denial of attorneys’ fees to a prevailing defendant where the action was not frivolous and “raised debatable issues of law and fact.” Boney, 127 F.3d at 827. The prevailing party bears the burden of demonstrating the exceptional nature of a case by clear and convincing evidence. Leatherman Tool Group Inc. v. Cooper Industries Inc., 47 U.S.P.Q. 2d 1049, 1050 (D. Or. 1998) (citing Seven-Up Co. v. Coca-Cola Co., 86 F.3d 1379, 1390 (5th Cir. 1996)).

A. Plaintiff’s pre-filing investigation

Defendants argue that they are entitled to an award of attorneys’ fees under 15 U.S.C. § 1117 because Plaintiff filed this lawsuit without any pre-filing investigation and thus had no basis for filing suit. Had Plaintiff’s counsel conducted a pre-filing investigation, Defendants contend, Plaintiff would have known that the Mallett Registration was invalid because the trademark had been abandoned four years earlier.

1 While this conclusion is a tenable one, it is not compelled by clear and
2 convincing evidence. Although neither Plaintiff's representatives nor its counsel
3 reviewed any documentation from Mallett before filing suit, or before the
4 trademark was assigned and a renewal declaration filed, Plaintiff's counsel did
5 interview Mallett about his trademark and its use in commerce. Counsel inquired
6 about the products Mallett was selling under the mark, including the approximate
7 number of products sold, whether he took them to trade shows, and the continuity
8 of his sales and promotional activities. Mallett Summ. J. Decl. ¶ 19. Plaintiff's
9 counsel also inquired about the first use of the mark and about any goods that
10 Mallett had previously sold but no longer sold or marketed. Id. Additionally,
11 Plaintiff's counsel solicited information regarding Mallett's customers, the stores
12 he sold to, what kind of samples he had, and the kind of business records he
13 possessed. Russ Depo., pp. 22-25 (App. to Finch Decl., Exh. E).

14 Defendants further argue that Plaintiff's duty to investigate was heightened
15 by "glaring red flags" Plaintiff chose to ignore, viz., Mallett sold the mark for only
16 \$15,000 and Plaintiff knew that since 1999, Mallett was employed full-time by
17 KoKo Island selling other goods.¹ These purported "red flags" add little to
18

19 ¹ Defendants also argue Plaintiff had a heightened duty to investigate in light of
20 Mallett's lack of sophistication in matters of trademark law and because Plaintiff filed a
21 Combined Declaration of Use and Incontestability Under §§ 8 & 15 under the penalty of
22 perjury. In contrast to S. Bravo Systems, Inc. v. Containment Technologies Corp., 96
23 F.3d 1372, 1375 (Fed. Cir. 1996), where attorneys relied on their client's lay opinion as
24 to patent infringement, Plaintiff's counsel here did not ask Mallett legal questions.
25 Rather, counsel asked Mallett factual questions in order to draw legal conclusions.

26 Additionally, the fact that Plaintiff submitted a Combined Declaration under
27 penalty of perjury is not as significant as Defendants suggest, as Plaintiff based the
28 assertions contained therein on information provided by Mallett. In ruling on
29 Defendants' motion for summary judgment, the court declined to find that statements
30 made in the Combined Declaration were fraudulent as a matter of law. The court
31 ultimately found the statements of "continuous use" literally untrue because the mark had
32 been abandoned.

1 Defendants' case. In addition to \$15,000, Mallett received a license-back
2 agreement to sell Pelican luggage items royalty free and gained the advantage of
3 potentially having his mark advertised nationally. Finally, the fact that Mallett
4 was employed full-time for another company selling other goods did not, standing
5 alone, necessitate a finding of abandonment.² This factor was relevant evidence of
6 an intent not to resume use of the mark and, along with many others factors,
7 warranted a finding of abandonment.

8 Plaintiff cites Eltech Systems Corp. v. PPG Industries, Inc., 903 F.2d 805
9 (Fed. Cir. 1990) for the proposition that 15 U.S.C. § 1117 imposes a duty to
10 conduct an investigation prior to filing a complaint. There, the court considered
11 whether a case was exceptional under the patent statute, 35 U.S.C. § 285, not the
12 Lanham Act. The court held that the filing and maintaining of an infringement
13 suit which the patentee knows, or on reasonable investigation should know, is
14 baseless constitutes grounds for declaring a case exceptional under Section 285.
15 The court affirmed the district court's holding that the suit was maintained in bad
16 faith and was "manifestly unreasonable in assessing infringement" because of
17 "studied ignorance," *viz.*, even the plaintiff's own tests did not establish
18 infringement. 903 F.2d at 810-11. Here, Plaintiff engaged in *some* investigation
19 before filing suit, and the basis for the suit has not been shown to have been
20 utterly baseless. Though Plaintiff and counsel could and should have done more,
21 the court cannot conclude that Plaintiff's counsel's failure to review Mallett's
22 documentation rises to the level of sanctionable conduct rendering this case
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26 ² In fact, the court noted that it was unclear whether Mallett sold Pelican-branded
27 goods regardless of the terms of his non-compete agreement with KoKo Island or that
28 Mallett's Pelican sales necessarily violated the agreement. See Order dated April 7, 2004,
p. 26 n. 26.

1 exceptional.³

2 Finally, the court's conclusion that "no reasonable juror could find that
3 Mallett made bona fide use of the mark in the ordinary course of trade and
4 intended to resume bona fide use of the mark in interstate commerce after 1998"
5 does not, by itself, make the case exceptional. See Order dated April 7, 2004, p.
6 32. If it did, every litigant who prevailed on summary judgment would be entitled
7 to attorneys' fees. Section 1117 clearly requires something more.

8 9 ***B. "Improper Purpose"***

10 Defendants also argue that this case is exceptional because it was initiated
11 for an improper purpose. They argue that Plaintiff had "ulterior motives" in
12 securing a tactical benefit in Pelican I, thereby delaying Pelican I and continuing
13 to profit from its allegedly infringing activities. Defs.' Mot., p. 16. In support,
14 Defendants note the timing of the assignment and the fact that Plaintiff has yet to
15 use Mallett's mark since the assignment.⁴

16 The fact that Plaintiff acquired Mallett's mark during the pendency of
17 Pelican I does not necessarily show an improper purpose. See generally, Glow
18 Industries v. Lopez, 273 F. Supp. 2d 1095, 1104, 1115-16 (C.D. Cal. 2003) (mark
19 assigned to defendant after plaintiff filed suit). According to Plaintiff, the
20

21 ³ The court declines to strike Plaintiff's arguments regarding abandonment.
22 Plaintiff presents these arguments not to have this court reconsider its holding on
23 summary judgment, but rather, to support Plaintiff's argument that its position with
24 respect to this issue was reasonable. However, Plaintiff's post-hoc attempt to bolster its
25 evidence of Mallett's cash sales by including copies of Mallett's check register is
26 disingenuous. See Gross Decl., Ex. E. No such evidence was presented to the court on
summary judgment.

27 ⁴ Defendants point to Mallett's acknowledgment that his mark could not be
28 confused with Defendants' as a basis for showing that Plaintiff's suit was frivolous.
Mallett, however, was admittedly a layman in matters of trademark law.

1 assignment of Mallett's mark was advantageous because Mallett was purportedly
2 the senior user of the Pelican mark for the goods in question.⁵ There is little doubt
3 that acquiring the Mallett mark and gaining incontestability status on the mark
4 gave Plaintiff a tactical benefit in both Pelican I and Pelican II by providing
5 defenses to Defendants' counterclaims and eliminating certain defenses
6 Defendants could raise. Plaintiff's conduct, however, demonstrates aggressive
7 litigation strategy, not necessarily a suit grounded in bad faith or filed for an
8 improper purpose. Such strategy – for better or worse – is not exceptional.
9 Moreover, the fact that Plaintiff has yet to use Mallett's mark is insignificant in
10 light of the fact that Defendants demanded Plaintiff not use the mark, claiming the
11 Mallett inventory was evidence that must be preserved until the litigation
12 concluded. See Placido Decl. (Summ. J.) ¶¶ 7-10.⁶

13 The cases Defendants rely on involved circumstances not present here and
14 are thus distinguishable. See Viola Sportswear, Inc. v. Mimun, 574 F. Supp. 619,
15 621 (E.D.N.Y. 1983) (meritless complaint containing allegations of a nationwide
16 trademark conspiracy based on sale of a single pair of \$10.00 jeans in which "there
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18 ⁵ Plaintiff's additional explanation that acquiring the Mallett Registration was
19 necessary to avoid a claim of infringement by Mallett is unpersuasive, as Plaintiff waited
20 over a year after discovering the Mallett registration to acquire it and presented no
evidence that Mallett was likely to sue.

21 ⁶ Defendants argue that the complaint was frivolous because it asserted ownership
22 of a mark Plaintiff knew or should have known had been abandoned. Specifically,
23 Defendants argue that no goodwill was assigned with Mallett's trademark and, in
24 response to the argument that Mallett was the senior user, Defendants had common law
25 priority to the Pelican mark. Neither of these issues was determined by the court on
summary judgment, and they are not appropriately considered on a motion for attorneys'
fees.

26 In their reply brief, Defendants also argue that Plaintiff knew that its trademark
27 claims were barred by laches. Arguments not raised in the moving papers will not be
28 considered for the first time in a reply. See Eberle v. City of Anaheim, 901 F.2d 814, 818
(9th Cir. 1990); Schwarzer et al., Federal Civil Procedure Before Trial, § 12:107 (2004).

[was] not the slightest suggestion in any paper before the Court that *any* inquiry was made to lend some assurance that the allegations in the complaint were well grounded in fact” and plaintiff did not oppose the granting of defendants’ motion for summary judgment); Universal City Studios, Inc. v. Nintendo Co. Ltd., 615 F. Supp. 838 (S.D.N.Y. 1985) (suit filed in bad faith and for ulterior business motive of extracting license agreements for visual images of King Kong when plaintiff knew that it had no rights to such images and the pre-filing investigation, or lack thereof, was designed to avoid discovery of the complaint’s lack of substance); IMAF v. J.C. Penney Co., 810 F. Supp. 96, 100 (S.D.N.Y. 1992) (suit “utterly lack a solid legal foundation” where mark had not been established in United States and “there was no possible way that IMAF reasonably could have expected to succeed on a Lanham Act claim based on section 43(a)” as well as an “absolute failure to make a sincere attempt validly to establish an essential element of a section 43(a) claim”); Caesars World, Inc. v. Milanian, 247 F. Supp. 2d 1171, 1207 (D. Nev. 2003) (suit involved “pattern or practice [] to file bogus intent-to-use applications for marks, and attempt to sell or license the ‘rights’ in the marks” in order to “hold Plaintiffs hostage”); Pilates, Inc. v. Current Concepts, Inc., 120 F. Supp. 2d 286, 314 (S.D.N.Y. 2000) (trademark registration declared invalid where there was “absolutely no basis for stating that the equipment mark had been used continuously in commerce” and registrant “consciously avoided making any inquiries that would have resulted in evidence showing a lack of use”); Polo Fashions, Inc. v. Extra Special Products, Inc., 208 U.S.P.Q. 421 (S.D.N.Y. 1980) (registration was maintained by filing false and fraudulent statements and defendants had stopped using the mark in the registration a generation earlier); Orient Express Trading Co. Ltd. v. Federated Dep’t Stores Inc., 3 U.S.P.Q. 2d 1387, 1389 (S.D.N.Y. 1987) (fraudulent trademark registrations “unmistakably obtained” for purpose of initiating vexatious litigation and for pressuring defendants to do business with plaintiffs).

1 **C. “Unreasonably and vexatiously multiplied litigation proceedings”**

2 Lastly, Defendants argue that Plaintiff unnecessarily and vexatiously
 3 pursued this case by (1) aggressively pursuing and insisting on protective orders
 4 that did not comply with local rules, (2) improperly instructing witnesses not to
 5 answer relevant deposition questions, (3) causing a joint stipulation to be drafted
 6 and later rendered moot when the objections were withdrawn without explanation,
 7 (4) refusing to produce Mallett’s tax documents on the date they were due absent a
 8 motion to compel, as Plaintiff’s counsel was now representing Mallett, even
 9 though Mallett never claimed that his records were confidential, (5) failing to
 10 produce Mallett documents until the day of his deposition, (6) attempting to
 11 include allegations related to Pelican I in the Pelican II complaint, (7) falsely
 12 representing that Plaintiff’s counsel represented Mallett, thereby insulating Mallett
 13 from an interview with Defendants’ counsel, and (8) forcing Defendants to redact
 14 allegedly confidential information from court filings while ignoring its own
 15 confidential designations and filing confidential information in unredacted form a
 16 year later.

17 Defendants cite nothing out of the ordinary in a case between two litigious
 18 parties. See Boney, 127 F.3d at 827 (“[Defendant] has failed to demonstrate that
 19 this case is exceptional in any respect other than the degree of animosity among
 20 the [parties].”) ⁷ The “Court is not inclined to find a case exceptional based on the
 21 simple bumbling about of counsel; although such behavior makes the case more

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 23 ⁷ Defendants overlook the fact that protective orders were sought by both parties.

24 In fact, the parties submitted stipulated protective orders. To the extent Plaintiff sought to
 25 include allegations already contained in Pelican I when filing Pelican II, this was
 26 remedied when the court granted Defendants’ motion to strike. Although Defendants had
 27 difficulty obtaining some discovery, they eventually received the information they sought.
 28 As to the allegation that Plaintiff’s counsel early on falsely stated that her firm
 represented Mallett, it appears to be a result of a misunderstanding. See Mallett Depo.,
 pp. 87-88 (Stanton Decl.).

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1 difficult to all concerned, it does not indicate clearly and convincingly that the
2 action was wholly without merit.” See Stutz Motor Car of America, Inc. v.
3 Reebok Int’l, Ltd., 909 F. Supp. 1353, 1368 (C.D. Cal. 1995). The court further
4 declines Defendants’ invitation to keep score of the various motions filed by the
5 parties.⁸ Neither party was notably more successful in bringing or defeating
6 motions.

7 The court is not unsympathetic to Defendants’ complaint. The court found a
8 number of events troubling in this case. The action was filed two months before
9 Pelican I was scheduled to go to trial. Mallett destroyed documents allegedly
10 without Plaintiff’s counsel’s knowledge shortly after assigning his trademark to
11 Plaintiff, despite being told by counsel that he “would ultimately need to get some
12 documents from him, to get whatever documents he had,” see Russ Depo., p. 22.⁹
13 Plaintiff failed to contact sales representatives to corroborate assertions by Mallett,
14 such as unrecorded cash sales after 1999. Plaintiff’s counsel’s explanation that
15 she cannot discuss why she decided to include information once declared
16 confidential in later filings without revealing attorney- client privilege is
17 questionable. Finally, Plaintiff has been at best cavalier in adhering to court
18 orders, having been found in contempt for violating this court’s preliminary
19 injunction order in Pelican I. Despite these troubling aspects, the court cannot
20 find that the instant action was so “malicious, fraudulent, deliberate, willful,
21 groundless, unreasonable, vexatious, or pursued in bad faith” to warrant
22 designating it “exceptional.” See Lindy Pen, 982 F.2d at 1410 (“Other than its
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24 ⁸ The court also declines to consider the prior actions of Plaintiff’s counsel and
25 Defendant Pelican in Pelican Products, Inc. v. Hubbell Lighting, Inc. and Koehler-Bright
26 Star, Inc., Case No. CV 00-06985 NM.

27 ⁹ Plaintiff’s counsel’s suggestion that he “merely asked what kind of
28 documentation Mr. Mallett had” is contradicted by the record. Pl.’s Opp’n, p. 21 n. 20.
See Russ Depo., p. 22.

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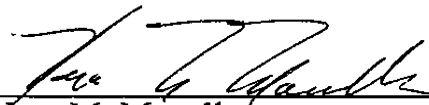
1 longevity, there is nothing exceptional about this case.”).

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3 **III. CONCLUSION**

4 For the reasons set forth above, Defendants’ motion to have the case
5 deemed exceptional, entitling Defendants to an award of attorneys’ fees and costs,
6 is DENIED.¹⁰

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8 IT IS SO ORDERED.

9 DATED: August 20, 2004

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12 Nora M. Manella
13 United States District Judge
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¹⁰ Defendants’ request for attorneys’ fees under Fed. R. Civ. P. 11, 28 U.S.C.
28 § 1927, and the court’s inherent powers is denied for the same reasons set forth above.